In the Specification

Please replace the paragraph starting at line 3 on page 17 as follows:

Similar to the process as shown in Figure 4, the quantized transform coefficients **110** or $c(i,j)$ are inverse quantized in the inverse quantization blocks **20** to obtain inverse quantized transform coefficients **120** or $d_1(i,j)$ and **120'** or $d_2(i,j)$. Each of these coefficients $d_1(i,j)$ and $d_2(i,j)$ are scaled with $\alpha_1(t)$ and $\alpha_2(t)$, respectively, in blocks **22, 22'** to become scaled coefficients **122, 122'**. The resulting coefficients are summed by a summing device **24**. The summing result $d_{12}(i,j)$ is denoted by reference numeral **124**. Meanwhile, the predicted frames **136**, or $R_1(x+\Delta x_1, y+\Delta y_1, t-1)$ and **136'** or $R_2(x+\Delta x_2, y+\Delta y_2, t-1)$ are subjected to transform coding in the Transform blocks **38, 38'**. Furthermore, using the motion-vectors of the first video-clip and the reconstructed frames of the second video-clip, a reference block **137'** $R_2(x+\Delta x_1, y+\Delta y_1, t-1)$ is obtained through the Motion Compensation prediction block **36'**. The reference block **137'** is also subjected to transform coding by a transform block **39'**. After the transform operations, transform coefficients **138, 138'** and **139'**, respectively, of $R_1(x+\Delta x_1, y+\Delta y_1, t-1)$, $R_2(x+\Delta x_2, y+\Delta y_2, t-1)$ and $R_2(x+\Delta x_1, y+\Delta y_1, t-1)$ are scaled with $(\alpha_1(t-1) - \alpha_1(t))$, $\alpha_2(t-1)$, and $-\alpha_2(t)$, respectively. The scaled transform coefficients are then subtracted from $d_{12}(i,j)$ in the summing block **25**. The final resulting coefficients **125** or $e(i,j)$ are then quantized in the quantization block **26**. Finally the quantized coefficients **126** are sent to a multiplexing unit **70** which performs entropy coding and multiplexing with other required information to produce a valid compressed video bitstream **170**.